abrdn Global Corporate Bond Fund

31 October 2022

Market review

Global investment-grade corporate bonds fell in October. Sovereign bond yields rose, with the 10-year US Treasury bond yield rising by 23 basis points (bps) to 4.05% while the 10-year German bund yield closed the month 3 bps higher at 2.14%. Credit spreads were roughly flat. As a result, the total index return for the period was negative at -0.62% (hedged to Australian dollars).

The European Central Bank (ECB) raised interest rates by 0.75% in October, mirroring its action in September. The hike brought rates to 1.50%, the highest level since before the 2009 global financial crisis. Despite rising rates, Eurozone annual consumer price inflation hit 10.7% in October, significantly above economists' forecasts. Food, fuel and industrial imports were behind the rise. The region's gross domestic product rose by 0.2% sequentially over the third quarter, lower than in the second quarter. Conversely, the US economy recorded annualised growth of 2.6% growth in the third quarter, having been in a technical recession during the first half of the year. Consumer prices rose by 0.4% month on month in September, increasing 8.2% in annual terms. While inflation was lower than June's high, the US Federal Reserve (Fed) is still expected to raise rates by 0.75% in November.

Portfolio review

The Fund outperformed its benchmark in October, thanks to an overweight holding of BBB rated bonds and an underweight holding of A rated bonds.

The Fund's top performer was General Electric. Long-dated holdings performed well over the month, including T-Mobile and UnitedHealth Group. Conversely, property bonds were the biggest detractors over the month. Notably Chinese issuers Sunac and Shimao lagged, as did European companies CTP, Sirius, CBRE and Cromwell. However, this was partially offset by positive returns from having zero exposure to Aroundtown.

In October, we bought the attractive new euro 2032 dual issue from Pernod Ricard, as well as a 2042 issue from Germany's national railway Deutsche Bahn. In US dollars, we bought UnitedHealth's 2028 and 2053 new issue, Marsh & Mclennan's 2052 bonds and American Express' 2027 bond. In the secondary market, we topped up our conviction overweights, including Viatris.

We shortened duration in Barclays, switching out of some of our 2029 bonds into attractively priced 2028 bonds. On the sell side, we sold Dell, as we are growing concerned about the outlook for the technology sector.

Outlook & strategy

The multiple headwinds of high inflation, central bank tightening, war in Ukraine and the resulting economic slowdown have led to a historic bear market for corporate bonds. Yields have increased by over 400 bps. Credit spreads now price in a mild to average recession in euro credit and a 50% chance of recession in US dollar credit, and we expect government bond yields to peak in the next 3 months. This makes us believe that we have seen 60-70% of the repricing of our market as a slowing economy, falling energy prices and base effects will soften inflation numbers in by the end of 2022 and the first quarter of 2023. While the war in Ukraine is unpredictable, we have seen some positive developments in terms of high gas storage levels and mild weather in northern Europe, making it less likely we will have to ration gas consumption over the winter. European governments have also launched countermeasures to soften the blow from higher energy prices for consumer and corporates. In the US, the job market remains strong, underpinning the economy, supporting wage growth and providing upward pressure on inflation. In response, the Fed continues to hike interest rates aggressively. US corporate third-quarter earnings were solid and are supportive of both fundamentals and valuations of US dollar credit. During its October meeting, the ECB guided for a slightly more cautious tightening approach in 2023. Overall, we remain more constructive on euro credit than US dollar credit as we believe euro valuations better reflect the downside risks of the economy. Still, we see some opportunities

Investment strategy

The Fund is actively managed and may invest in a wide range of bonds (e.g. corporate bonds including high yield bonds, government backed securities, overseas bonds, index-linked bonds, floating rate notes ('FRNs') and asset backed securities ('ABSs')) and/or money market instruments) in order to take advantage of opportunities identified.

Investment objective

The Fund aims to provide long term growth and outperform the Benchmark over rolling 3 year periods (before deduction of fees, costs and taxation) by investing predominantly in global investment grade bonds.

Past performance is not a reliable indicator of future results.

in the US dollar new issue market, as some of our preferred individuals' names are coming at attractive valuations. With the heightened uncertainty in regard to inflation, interest rates and the economy, stock picking remains critical in identifying those names which can successfully weather these volatile markets.

Specific share class performance is available on the relevant factsheet.

The opinions expressed are those of abrdn as of the date of publication and are subject to change at any time due to changes in market or economic conditions.

Companies selected for illustrative purposes only to demonstrate the investment management style described herein and not as an investment recommendation or indication of future performance.

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